

NADEL AND GUSSMAN PERMIAN, L.L.C.  
601 N. Marienfeld, Suite 508  
Midland, TX 79701  
Office: (432) 682-4429  
Fax: (432) 682-4325

File 161

January 18, 2011

The Toles-Com Ltd  
Attn: Mr. Perry Toles  
P.O. Box 1300  
Roswell, NM 88202

*Via Certified Mail, Return Receipt Requested*

Re: Big Iron #1-H, SHL: 2310' FSL & 330' FWL, BHL: 2310' FSL & 330' FEL  
Big Iron #2-H, SHL: 990' FSL & 330' FWL, BHL: 990' FSL & 330' FEL  
Section 5, T-19-S, R-26-E  
Eddy County, New Mexico

Dear Mr. Toles:

Nadel and Gussman Permian, L.L.C. ("NGP"), as an owner of interest in Section 5, T-19-S, R-26-E, Eddy County, New Mexico, hereby proposes to drill and operate the above captioned wells at the referenced locations to depths to adequately evaluate the Yeso Formation.

Regarding the above, enclosed for your signature is an AFE for each well proposed, including a copy of each for your records.

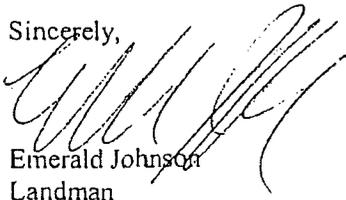
Our inspection of public records indicates that The Toles-Com Ltd ("TOLES") owns an approximate 4.17% Leasehold Interest in the S/2 of the captioned Section 5.

In the event that you elect to participate in the captioned proposed wells, please execute one copy of each AFE and return to the undersigned. Upon receipt of the executed AFE's, I will forward our proposed Operating Agreement naming NGP as operator for your signature.

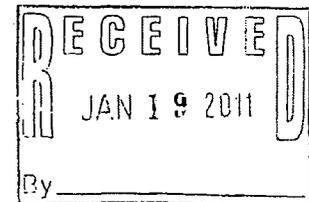
In the event TOLES elects not to participate in the captioned wells, NGP would like to negotiate an Oil and Gas Lease of TOLES' interest.

Should you have any questions regarding the above, please call me at the above captioned telephone number.

Sincerely,



Emerald Johnson  
Landman



BEFORE THE OIL CONSERVATION DIVISION  
Santa Fe, New Mexico  
Exhibit No. 3  
Submitted by:  
**COG OPERATING, LLC**  
Hearing Date: January 5, 2012

**AUTHORITY FOR EXPENDITURE**

**NADEL AND GUSSMAN PERMIAN, LLC**

Date: 1/12/2011

Prepared By: Joel Martin

Prospect Name: Big Iron

County, State: Eddy, New Mexico

Projected Total Depth: 7120' (3000' Pilot hole TVD)

Lease / Well Number: Big Iron #1-H

Location: Sec. 5 - 19s- 26e

SHL: 2310' FSL, 330' FWL

BHL: 2310' FSL, 330' FEL

Primary Objectives: Yeso

\*NOTES\*

Daywork Pilot Hole Logged, then Kick Off Horiz Oil Well - Closed-Loop Moyno Packers Plus Type Completion  
 TVD @ EOC = 2850' +/-  
 TVD @ EOL = 2785' +/-

It is recognized that the amounts provided here are estimates only and approval of this authorization shall extend to actual costs incurred in conducting the operations specified, whether more or less than estimated.

Intan. Drilling Costs BCP	COSTS
4-02 Abandonment & Cleanup	\$ 30,000
1-10 Abstracts & Title Opinions	\$ -
4-87 Well Control Insurance 7120' \$/Ft: 0.684	\$ 4,870
4-01 Legal, Permits & Fees	\$ 2,500
4-67 Staking Location & Surveys	\$ 1,000
4-36 Location, Road & ROW	\$ 50,000
4-15 IDC Daywork Days: 20 \$/Day: 12000	\$ 240,000
4-14 Mobilization / Demobilization	\$ 55,000
4-66 Rig Fuel Days: 20 \$/Day: 2783	\$ 55,650
4-24 IDC Footage \$/Ft:	\$ -
4-72 Supervision Days: 20 \$/Day: 1000	\$ 20,000
4-18 Drilling Overhead (Administrative Services)	\$ 4,667
4-03 Bits & Reamers	\$ 21,000
4-61 Rentals Surface	\$ 65,030
4-62 Rentals Sub-Surface	\$ 11,000
4-62 Drill Pipe / Motors Days: 15 \$/Day: 4000	\$ 60,000
4-16 Directional Drilling Expense 15 \$/day 8500	\$ 127,500
4-31 Inspection - Drill String	\$ -
4-04 Well Control & Testing	\$ 5,000
4-45 Miscellaneous IDC	\$ 5,000
4-52 Mud Logging Days: 15 \$/Day: \$ 933	\$ 14,000
4-08 Contract Labor	\$ 8,000
4-78 Transportation	\$ 10,500
4-05 Surface Casing Crews	\$ -
4-06 Kick Off Plug	\$ 25,000
4-23 Surface Float Equipment & Centralizers	\$ -
4-05 Intermediate Surface Casing Crews	\$ 6,000
4-06 Intermediate Cement and Cement Services	\$ 12,000
4-23 Intermediate Float Equipment & Centralizers	\$ 1,700
4-51 Mud & Additives	\$ 20,000
4-12 Corrosion Control & Chem.	\$ 5,000
4-84 Water	\$ 15,767
4-85 Water / Mud Disposal	\$ 39,429
Contingency (10%)	\$ 91,561
<b>TOTAL</b>	<b>\$ 1,061,954</b>

Intan. Formation Testing BCP	COSTS
4-39 Logging & Wireline	\$ 10,000
4-21 Drill Stem - Formation Tests	\$ -
4-12 Coring & Analysis (Sidewall Cores)	\$ -
Contingency (10%)	\$ 1,000
<b>TOTAL</b>	<b>\$ 11,000</b>

Tangible Lease & Well Equipment BCP	COSTS
6-72 Surface Casing 13-3/8" \$/Ft: 0 Feet: 1400	\$ -
6-32 Intermediate Csg 9 5/8" \$/Ft: 25 Feet: 1400	\$ 34,300
" \$/Ft: Feet:	\$ -
" \$/Ft: Feet:	\$ -
6-84 Wellhead	\$ 4,000
6-76 Cattle Guards	\$ 1,500
Contingency (10%)	\$ 3,980
<b>TOTAL EQUIPMENT</b>	<b>\$ 43,780</b>

<b>TOTAL DRILLING</b>	<b>\$ 1,061,954</b>
<b>TOTAL INTANGIBLE</b>	<b>\$ 1,636,042</b>

Intan. Comp. Costs ACP	COSTS
5-02 Abandonment & Cleanup	\$ (30,000)
5-12 IDC Daywork Days: 2 \$/Day: 12000	\$ 24,000
4-66 Rig Fuel Days: 2 \$/Day: 2783	\$ 5,565
5-84 Drilling Rig Supervision Days: 2 \$/Day: 1000	\$ 2,000
5-05 Production Casing Crews	\$ 8,000
5-08 Production Casing Cement & Services	\$ 12,000
5-08 Prod. Float Equipment & Centralizers	\$ 9,000
5-09 Completion / Swab Unit Days: 2 \$/Day: 28000	\$ 56,000
5-84 Compl. Rig Supervision Days: 8 \$/Day: 650	\$ 5,200
5-18 Administrative Services	\$ 2,333
5-48 Mud & Chemicals	\$ 2,400
5-66 Water Hauling	\$ 8,000
5-32 Logging, Perforations & Wireline	\$ -
5-62 Rentals Subsurface	\$ 7,500
5-81 Rentals Surface	\$ 5,400
5-53 Nitrogen Service & Coiled Tubing	\$ -
5-22 Fishing	\$ -
5-80 Stimulation	\$ 400,000
5-92 Transportation	\$ 8,000
5-77 Contract Labor & Roustabout	\$ 9,000
5-04 Bits & Reamers	\$ -
5-11 Couplings & Fittings	\$ 9,500
5-28 Location & Road Expense	\$ 5,000
5-40 Miscellaneous IDC	\$ 5,000
5-31 Pipe Inspection & Recondition	\$ -
5-68 Pumping Services (Kill Truck)	\$ -
5-21 Testing	\$ 5,000
5-40 Well Control Insurance Days: 8 \$/Day: 350	\$ 2,800
Contingency (10%)	\$ 56,170
<b>TOTAL</b>	<b>\$ 617,868</b>

Tangible Well Equipment ACP	COSTS
6-60 Prod. Csg / Liners 5-1/2" \$/Ft: 14 Feet: 7120	\$ 99,680
" \$/Ft: Feet:	\$ -
6-80 Tubing 2-7/8" \$/Ft: 6 Feet: 2000	\$ 12,000
6-84 Wellhead	\$ 5,000
6-68 Rods and Pump, Moyno	\$ 40,000
931-000 Subsurface Equipment	\$ 180,000
Contingency (10%)	\$ 33,668
<b>TOTAL EQUIPMENT</b>	<b>\$ 370,348</b>

Tangible Lease & Battery Equipment ACP	COSTS
6-64 Pumping Units & Engines	\$ -
6-16 Gas Processing & Dehy	\$ -
6-24 Heaters, Treators & Separators	\$ 15,000
6-76 Tanks & Accessory Equipment	\$ 25,000
6-40 Pipeline	\$ 10,000
6-42 Flowline	\$ 5,000
6-12 Controllable Valves	\$ 9,000
6-44 Misc. Controllable Equipment	\$ 6,000
Contingency (10%)	\$ 7,000
<b>TOTAL EQUIPMENT</b>	<b>\$ 77,000</b>

<b>TOTAL COMPLETION</b>	<b>\$ 1,065,216</b>
<b>TOTAL TANGIBLE</b>	<b>\$ 491,128</b>

Joint Interest Approval

Company:

Company: Nadel and Gussman Permian, LLC

<b>TOTAL DRY HOLE COST</b>	<b>\$ 1,096,675</b>
<b>TOTAL WELL COST</b>	<b>\$ 2,127,170</b>

By: \_\_\_\_\_ Date: \_\_\_\_\_

By: *Joel Martin* Date: 1/12/2011

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Date: 1/12/2011

Prepared By: Joel Martin

Prospect Name: Big Iron

County, State: Eddy, New Mexico

Projected Total Depth: 7120' (3000' Pilot hole TVD)

Lease / Well Number: Big Iron #2-H

Location: Sec. 5 - 19s- 26e

SHL: 990' FSL, 330' FWL

BHL: 990' FSL, 330' FEL

Primary Objectives: Yeso

**\*NOTES\***

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<b>TOTAL TANGIBLE</b>	<b>\$ 491,128</b>

**Joint Interest Approval**

Company:

Company: Nadel and Gussman Permian, LLC

By: \_\_\_\_\_ Date: \_\_\_\_\_

By: *Joel Martin* Date: 1/12/2011

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